

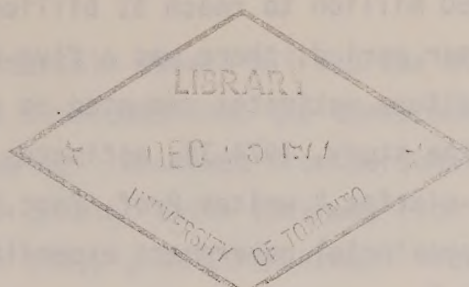


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*News release*



FOR RELEASE: Wednesday 7 December 1977

PROVINCIAL PUBLIC FINANCE IN ONTARIO: AN EMPIRICAL ANALYSIS OF THE LAST TWENTY-FIVE YEARS, by Professor David K. Foot, a research study prepared for the Ontario Economic Council, and published by the University of Toronto Press.

TORONTO, December 7 -- In spite of substantial increases in real per capita expenditures by the Ontario government over the postwar period, these expenditures did not adjust rapidly to the desired level of expenditures in the province, says a University of Toronto professor.

Professor David Foot, in analyzing nine alternative determinants of the desired levels of government expenditures and, therefore, the growth of government spending, reports that provincial incomes and population structure appeared to be the most important determinants of these levels. This is one of several conclusions about the behaviour of the revenues and expenditures of the Ontario government over the period 1950-1975 in a report prepared for the Ontario Economic Council.

Provincial Public Finance in Ontario is believed to be the first such study to examine the behaviour of the finances of a single, sub-national government over time. Working with the Public Accounts and other sources, Prof. Foot offers both an historical account of, and an explanation for, the growth of over sixty categories of provincial revenues and expenditures.



The author notes that expenditure estimates rose over the first decade from around \$350 million to reach \$1 billion by 1960-61. Over the following 10-year period, there was a five-fold increase so that by 1970-71, expenditure estimates amounted to nearly \$5 billion. By the final year of the study, 1974-75, estimates were almost \$9 billion. "Since the mid-sixties," writes Prof. Foot, "there has been a very rapid growth in the provincial government expenditures which apparently was not anticipated."

Prof. Foot reviews the changing organizational structure of the provincial government and examines the expenditures of the largest 16 ministries which accounted for over 99 per cent of total budgetary expenditures. He notes that the six largest ministries -- Health, Education, Treasury, Economics and Intergovernmental Affairs (TEIA), Colleges and Universities, Transportation and Communications, and Community and Social Services -- account for nearly 85 per cent of the total provincial budget. In two of these categories, hospitals and assistance to school authorities, expenditures each amount to over \$1 billion. Health insurance, post-secondary education and debt transactions each fall into the \$500 million to \$1 billion range.

The annual growth rates averaged over 20 per cent in post-secondary education, cultural education, pension funds, TEIA administration, rehabilitation and housing. Only three growth rates below 10 per cent were recorded -- for debt transactions, highway maintenance and highway construction.

Prof. Foot notes that in recent years, the provincial government has continued to rely on non-public borrowing as a source of funds. The main source of these funds is the Canada Pension Plan, which has accounted for over 60 per cent of the non-public total over the period. Other important sources are the Ontario Teachers Pension Fund and the Ontario Municipal Employees Retirement Fund. "This transfer of debt obligations appears as the most significant of the financing trends in recent years," states the author.



Prof. Foot also examines in considerable detail all sources of revenue to the provincial government. He concludes that the three most lucrative sources were also the fastest growing. Revenues from personal income tax averaged 25.7 per cent annual growth, while revenues from the retail sales tax, since its inception in 1961, grew at an annual average rate of 20.8 per cent.

The third source, payment from the federal government, also grew rapidly with an average annual growth rate of 34.2 per cent in education, 22.1 per cent in social welfare and 16.3 per cent in health. The author concludes later in the study that these federal funds have been a substitute for provincial expenditure and have clearly been an important determinant of expenditures in these three areas.

Of the nine expenditure determinants examined, Prof. Foot finds that urbanization, stabilization policy and election appeared to have had little impact on expenditures. The author's statistics suggest that the effect of urbanization would have had to work "with roughly a 10-year lag for this to be a significant determinant of most provincial expenditures."

In addition, the author notes that the provincial expenditure patterns are consistent with either a revenue-led interpretation, where the recent availability of pension funds stimulated expenditures, or a leading sector interpretation, whereby certain important functions such as transportation, education and health received concentrated attention for a few years, but at different periods. This latter hypothesis, the author notes, "seems to point to social services as possibly being the next leading sector."

Recently an updated version of this study has been used by the Ontario Economic Council in the development of an economic outlook for the Ontario economy over the next decade.

Provincial Public Finance in Ontario: an empirical analysis of the last twenty-five years, was prepared under the auspices of the Ontario Economic Council, an autonomous research agency funded by the Province of Ontario. The Council acts as an independent advisor to government and all political parties, undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario, and to support the advancement of all sectors of the Province. The Council achieves these goals by sponsorship of research projects, publication of studies and organization of the Outlook and Issues conferences and seminars which are open to the public.

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NOTE: A list of persons to contact for further information, a brief biographical sketch of the author, and a selection of quotations from the report are attached.

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Dr. David K. Foot, 33, completed his undergraduate degree at the University of Western Australia and obtained his Ph.D at Harvard. He joined the Department of Political Economy and the staff of the Institute for Political Analysis at the University of Toronto in 1971. Foot has authored and co-authored numerous papers, including The Ontario Economy 1977-1987 prepared for the Ontario Economic Council.

PROVINCIAL PUBLIC FINANCE IN ONTARIO (213 Pgs.) is published by the University of Toronto Press, 5201 Dufferin St., Downsview, Ontario M3H 5T8, or 33 East Tupper St., Buffalo, New York 14203.

Also available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$7.50



SELECTED QUOTATIONS

"For the first decade, year-to-year increases averaged out at considerably less than \$100 million. This was followed by a period of four years (1961/2 to 1964/5) when annual increases averaged slightly over \$100 million. Then in 1965/6 the increase jumped to over \$400 million and only once since then has the annual budget increase been lower. ... since the mid-sixties there has been a very rapid growth in provincial government expenditures in the province. Moreover this growth apparently was not anticipated." (Pg. 11)

"Total spending by the government has been rising in both current and deflated dollars, especially since the mid-sixties when the rate accelerated noticeably. Expenditures expressed as a percentage of GPP also grew over the period and especially since the mid-sixties, although it is interesting to note that this indicator suggests that expenditure growth has not matched the growth of the provincial economy in recent years. Employment by the provincial government has also been rising, both in absolute numbers and as a percentage of the labour force of the province. However, the employment growth has not matched the expenditure growth with the result that persons employed per dollar spent has approximately halved since 1960." (Pgs. 18-19)

"... it can be deduced that only five ministry titles have remained unchanged over the twenty-four years -- Education, Health, Labour, Lieutenant Governor, and Provincial Auditor. Two others -- Agriculture and Food, and Premier -- have been changed only slightly. Consequently, of the twenty-nine ministries at present existing, twenty-two either have been introduced or incorporate significant titular changes since 1950/51." (Pg. 19)

"... it is clear that, since the early sixties, payments from the federal government have become an important source of funds accounting for between 15 and 20 per cent of total revenues, while other budgetary revenues have accounted for between 20 and 30 per cent of total revenue. The relative shares of all these major categories are subject to some volatility and no clear trends can be deduced from these tables. However the data for the last two years do suggest an increase in the importance



of taxation revenue relative to federal payments and other budgetary sources." (Pg. 30)

"Borrowing from this source (non-public) has enabled a reduction in the growth of public debt which has been offset by a rise in debt to non-public sources. The main source of non-public funds is the Canada Pension Plan. ... On the other hand both treasury bills and debentures have been retired in the last two fiscal years covered by the data. This transfer of debt obligations appears as the most significant of the financing trends in recent years." (Pg. 36)

"... it is apparent that five broad expenditure categories (representing six ministries) now account for nearly 85 per cent of total provincial expenditures. The increasing relative importance of education over the decade of the sixties and the recent rapidly increasing importance of health expenditures in the seventies were noted together with the gradually declining importance of transportation expenditures and the relative constancy of expenditures on social services." (Pg. 69)

"In the early postwar period, activities of the provincial government were most evident in education and highway construction. Although the basis of a social policy program was in existence ... the role of the Ontario government was seen as primarily one of a regulator with respect to such matters as education, liquor, health, traffic, and employment." (Pg. 70)

"...the role which the Government of Ontario has taken in the activity of the province has changed substantially over the postwar period. It commenced the period primarily as a regulator of activity but by the mid-fifties, with extensive highway, hospital and school construction, the provincial government's role as a builder of social overhead capital became apparent. This role was continued into the following decade with the construction of university and other post secondary institution facilities, and more recently, with the construction in the housing market. By the mid-sixties it was apparent that the government's role had been further extended as it became a general provider of services, particularly in the areas of health and social policy but also in other areas such as justice and housing, thus extending its role beyond the



already well-established provision of educational services. These three main roles now characterize the bulk of the expenditures of the provincial government." (Pg. 74)

"The Provincial Treasurer in recent years has been accumulating non-public debt obligations (by borrowing from the various pension funds) at a much faster rate than public debt obligations. This action would be consistent with the hypothesis that pension funds, and particularly borrowings from the Canada Pension Plan, are perceived by the government to be in some way different from increases in public debt obligations. If these various sources of funds are perceived, at least politically, to be different, then a change in their composition could affect expenditure growth." (Pg. 173)

"In the postwar period the first function which received concentrated attention in Ontario might be identified as transportation (highways) where the growth rate in expenditures increased rapidly over the mid-fifties but had slowed down considerably by the following decade. ... This expansion was followed by a rapid increase in the growth of expenditures on education during the early sixties as the postwar baby boom moved through the educational system. ... Then in the late sixties and early seventies expenditures on health have risen rapidly, although recent pronouncements have indicated that the pressure is building rapidly for a decrease in the observed rate of growth. It is tempting to ask 'what is next?' The evidence seems to point to social services, but this suggestion can be attributed only to conjecture at this time." (Pg. 176)

"The conclusion that emerges from the specification of the econometric equation used in the analysis of provincial expenditures is that the government does not adjust rapidly to increases in the desired level of per capita expenditures. There are probably many reasons for this partial adjustment and the results ... suggest an average partial adjustment of between 20 and 40 per cent per year." (Pg. 192)